



C. Earl Hunter, Commissioner

*Promoting and protecting the health of the public and the environment.*

**CERTIFIED MAIL**

91 7199 9991 7030 0505 8648

September 9, 2011

Mr. F. Del Murphy, Jr.  
Vice President-Planning  
Carolinas HealthCare System  
P.O. Box 32861  
Charlotte, NC 28232-2861

Re: Carolinas Medical Center – Fort Mill  
As Per December 9, 2009 Order from Judge Matthews, Administrative Law Court  
Fort Mill, South Carolina

Dear Mr. Murphy:

It is the decision of this Department that a Certificate of Need be issued to Carolinas Medical Center – Fort Mill for the construction of a sixty-four (64) bed general acute care hospital to be located in York County, South Carolina.

This decision is made in accordance with the December 9, 2009 Order (“the Order”) from the Administrative Law Court (“ALC”) issued by the Honorable Carolyn C. Matthews, which remanded Docket No. 06-ALJ-07-0713-CC to the Department for further action consistent with the Order’s instructions. The Order instructed, among other things, that the Department:

- “determine ‘which of the applicants, if any, most fully complies with the requirements, goals, and purposes of this article and the State Health Plan, Project Review Criteria, and the regulations adopted by the department’ as required by S.C. Code Ann. § 44-7-210(C)” (emphasis in original);
- “be made based upon the fact that each of the parties is in equal compliance with 24A S.C. Code Reg. 61-15 § 802.1”; and
- “be accompanied by written findings as to each applicant’s compliance with the relevant Project Review Criteria and which party best meets each project review criterion and the basis thereof.”

The Department has determined that the application presented by Carolinas Medical Center – Fort Mill most fully complies with the requirements, goals, and purposes of Certificate of Need Program, the South Carolina Health Plan, Project Review Criteria, and Regulation 61-15, “Certification of Need for Health Facilities and Services.”

This decision is based upon the written findings contained in the attached Project Review Criteria Analysis and upon the following conclusions:

Mr. Murphy  
September 9, 2011  
Page 2

1. Carolinas Medical Center – Fort Mill (“the applicant”) best meets the following Project Review Criteria: Community Need Documentation - 2e; Distribution - 22; Projected Revenues - 6b; Net Income - 9; Financial Feasibility - 15; Cost Containment – 16a; Record of the Applicant - 13b; and Adverse Affects on Other Facilities – 23a;
2. The applicant has adequately demonstrated that its current significant level of market share and utilization will be sufficient to justify the implementation of the project;
3. The applicant’s proposed project appears to be financially feasible based upon the information provided; and
4. The applicant’s proposed project will increase accessibility and availability of services by shifting current market share to a facility in South Carolina, resulting in less adverse impact to existing facilities.

If you have any questions, please feel free to contact us at (803) 545-4200.

Sincerely,



Beverly A. Brandt, MPH, Chief  
Bureau of Health Facilities and Services Development

Enclosures: Project Review Criteria Analysis  
Notice of Appeal Procedure

cc: Ashley Biggers, Esquire, Chief Counsel for DHEC Health Regulation  
Doug Muller, Esquire, Moore & Van Allen  
Ariail B. Kirk, Esquire, McNair Law Firm, P.A.  
Barbara L. Freedy, Director, Certificate of Need, Novant  
Stuart M. Andrews, Jr., Esquire, Nelson Mullins  
Charles Miller, President and CEO, Piedmont Medical Center  
David Levitt, Levitt Healthcare Affiliates



C. Earl Hunter, Commissioner

*Promoting and protecting the health of the public and the environment.*

**Certified Mail**

91 7199 9991 7030 0505 8631

September 9, 2011

Mr. Charles Miller, President and CEO  
Piedmont Medical Center  
222 South Herlong Avenue  
Rock Hill, SC 29732

Re: Amisub of South Carolina, Inc. d/b/a Fort Mill Medical Center  
As Per December 9, 2009 Order from Judge Matthews, Administrative Law Court  
Fort Mill, South Carolina

Dear Mr. Miller:

It is the decision of this Department that the Certificate of Need application submitted by Amisub of South Carolina, Inc. d/b/a Fort Mill Medical Center for the construction of a one hundred (100) bed general acute care hospital in York County, South Carolina, be denied. The Department has decided to grant the competing Certificate of Need application submitted by Carolinas Medical Center – Fort Mill for the construction of a sixty-four (64) bed general acute care hospital in York County on the basis that it most fully complies with the requirements, goals, and purposes of Certificate of Need Program, the South Carolina Health Plan, Project Review Criteria, and Regulation 61-15, “Certification of Need for Health Facilities and Services.”

This decision is made in accordance with the December 9, 2009 Order (“the Order”) from the Administrative Law Court (“ALC”) issued by the Honorable Carolyn C. Matthews, which remanded Docket No. 06-ALJ-07-0713-CC to the Department for further action consistent with the Order’s instructions. The Order instructed, among other things, that the Department:

- “determine ‘which of the applicants, if any, most fully complies with the requirements, goals, and purposes of this article and the State Health Plan, Project Review Criteria, and the regulations adopted by the department’ as required by S.C. Code Ann. § 44-7-210(C)” (emphasis in original);
- “be made based upon the fact that each of the parties is in equal compliance with 24A S.C. Code Reg. 61-15 § 802.1”; and
- “be accompanied by written findings as to each applicant’s compliance with the relevant Project Review Criteria and which party best meets each project review criterion and the basis thereof.”

This decision is based upon the written findings contained in the attached Project Review Criteria Analysis and upon the following conclusions:

1. The Certificate of Need application submitted by Carolinas Medical Center – Fort Mill best meets the following Project Review Criteria: Community Need Documentation - 2e; Distribution - 22; Projected Revenues - 6b; Net Income - 9; Financial Feasibility - 15; Cost Containment – 16a; Record of the Applicant - 13b; and Adverse Affects on Other Facilities – 23a.
2. The Department is concerned with the declining utilization at Piedmont Medical Center, the heavy dependence of recapturing significant lost market share which would require a significant reversal of market trend, the impact of redirecting existing patients away from Piedmont Medical Center, the substantial cost of the project, and the ability to finance the project.
3. The Carolinas Medical Center – Fort Mill proposed project adequately demonstrated that its current significant level of market share and utilization will be sufficient to justify the implementation of the project, appears to be financially feasible and proposes to shift current market share to a facility in South Carolina, resulting in less adverse impact to existing facilities.

A copy of the Notice of Appeals Procedure is enclosed for your convenience. If you have any questions, please feel free to contact us at (803) 545-4200.

Sincerely,



Beverly A. Brandt, MPH, Chief  
Bureau of Health Facilities and Services Development

Enclosures: Project Review Criteria Analysis  
Notice of Appeals Procedure

cc: Ashley Biggers, Esquire, Chief Counsel for DHEC Health Regulation  
Ariail B. Kirk, Esquire, McNair Law Firm, P.A.  
Ms. Barbara L. Freedy, Director, Certificate of Need, Novant  
Doug Muller, Esquire, Moore & Van Allen  
Del Murphy, Vice President, Carolinas HealthCare System  
Stuart M. Andrews, Jr., Esquire, Nelson Mullins  
David Levitt, Levitt Healthcare Affiliates



C. Earl Hunter, Commissioner

*Promoting and protecting the health of the public and the environment.*

**Certified Mail**

91 7199 9991 7030 0505 8624

September 9, 2011

Ms. Barbara L. Freedy, Director  
Certificate of Need  
Novant Health, Inc.  
2085 Frontis Plaza Boulevard  
Winston-Salem, NC 27103

Re: Presbyterian Hospital York, LLC d/b/a Presbyterian Hospital Fort Mill ("Presbyterian")  
Fort Mill, South Carolina  
As Per December 9, 2009 Order from Judge Matthews, Administrative Law Court

Dear Ms. Freedy:

It is the decision of this Department that the Certificate of Need application submitted by Presbyterian Hospital York, LLC d/b/a Presbyterian Hospital Fort Mill for the construction of a sixty-four (64) general acute care hospital in York County, South Carolina be denied. The Department has decided to grant the competing Certificate of Need application submitted by Carolinas Medical Center – Fort Mill on the basis that it most fully complies with the requirements, goals, and purposes of Certificate of Need Program, the South Carolina Health Plan, Project Review Criteria, and Regulation 61-15, "Certification of Need for Health Facilities and Services."

This decision is made in accordance with the December 9, 2009 Order ("the Order") from the Administrative Law Court ("ALC") issued by the Honorable Carolyn C. Matthews, which remanded Docket No. 06-ALJ-07-0713-CC to the Department for further action consistent with the Order's instructions. The Order instructed, among other things, that the Department:

- "determine 'which of the applicants, if any, most fully complies with the requirements, goals, and purposes of this article and the State Health Plan, Project Review Criteria, and the regulations adopted by the department' as required by S.C. Code Ann. § 44-7-210(C)" (emphasis in original);
- "be made based upon the fact that each of the parties is in equal compliance with 24A S.C. Code Reg. 61-15 § 802.1"; and
- "be accompanied by written findings as to each applicant's compliance with the relevant Project Review Criteria and which party best meets each project review criterion and the basis thereof."

This decision is based upon the written findings contained in the attached Project Review Criteria Analysis and upon the following conclusions:

1. The Certificate of Need application submitted by Carolinas Medical Center – Fort Mill best meets the following Project Review Criteria: Community Need Documentation - 2e; Distribution - 22; Projected Revenues - 6b; Net Income - 9; Financial Feasibility - 15; Cost Containment – 16a; Record of the Applicant - 13b; and Adverse Affects on Other Facilities – 23a.
2. The Department is concerned with fact that it would be difficult for Presbyterian to meet proposed utilization projections, and if they are not met, this will affect the financial viability of the project. Presbyterian will also have to capture a high level of market share that is held by other providers, resulting in adverse impact to these providers, primarily Piedmont Medical Center.
3. The Carolinas Medical Center – Fort Mill proposed project adequately demonstrated that its current significant level of market share and utilization will be sufficient to justify the implementation of the project, appears to be financially feasible and proposes to shift current market share to a facility in South Carolina, resulting in less adverse impact to existing facilities.

A copy of the Notice of Appeals Procedure is enclosed for your convenience. If you have any questions, please feel free to contact us at (803) 545-4200.

Sincerely,



Beverly A. Brandt, MPH, Chief  
Bureau of Health Facilities and Services Development

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Stuart M. Andrews, Jr., Esquire, Nelson Mullins  
Charles Miller, President and CEO, Piedmont Medical Center  
David Levitt, Levitt Healthcare Affiliates

**Notice of Appeal Procedure**  
Pursuant to S.C. Code Section 44-1-60

1. This decision of the S.C. Department of Health and Environmental Control (Department) becomes the final agency decision 15 calendar days after notice of the decision has been mailed or otherwise sent to the applicant, permittee, licensee and affected persons who have requested in writing to be notified, unless a written request for final review accompanied by a filing fee in the amount of \$100 is filed with the Department by the applicant, permittee, licensee, or affected person.
2. An applicant, permittee, licensee, or affected person who wishes to appeal this decision must file a timely written request for final review with the Clerk of the Board at the following address or by facsimile at 803-898-3393. A filing fee in the amount of \$100 made payable to SC DHEC must also be received by the Clerk within the time allowed for filing a request for final review. However, if a request for final review is filed by facsimile, the filing fee may be mailed to the Clerk of the Board if the envelope is postmarked within the time allowed for filing a request for final review.

Clerk of the Board  
SC DHEC  
2600 Bull Street  
Columbia, SC 29201
3. In order to be timely, a request for final review must be received by the Clerk of the Board within 15 calendar days after notice of the decision has been mailed or otherwise sent to persons entitled to receive notice. If the 15th day occurs on a weekend or State holiday, the request is due to be received by the Clerk of the Board on the next working day. The request for final review must be received by the Clerk of the Board by 5:00 p.m. on the date it is due. A request for final review will be returned to the requestor if the filing fee is not received on time as described above.
4. The request for final review should include the following:
  - a. the grounds on which the Department's decision is challenged and the specific changes sought in the decision
  - b. a statement of any significant issues or factors the Board should consider in deciding whether to conduct a final review conference
  - c. a copy of the Department's decision for which review is requested
5. If a timely request for final review is filed with the Clerk of the Board, the Clerk will provide additional information regarding procedures. If the Board declines in writing to schedule a final review conference, the Department's decision becomes the final agency decision and an applicant, permittee, licensee, or affected person may request a contested case hearing before the Administrative Law Court within 30 calendar days after notice is mailed that the Board declined to hold a final review conference.

**The above information is provided as a courtesy; parties are responsible for complying with all applicable legal requirements.**

## **Project Review Criteria Analysis for the “Fort Mill Hospital” Decision**

**Note:** This document, in addition to the Project Review Summary for each applicant, will serve as the “Summary of Staff Findings.” Since the Project Review Meeting of June 29, 2011, Presbyterian Hospital - York has revised some information, such as projected acute care occupancy, outpatient cases, Emergency Department (ED) cases and excess of revenues over expenses. This information was dated August 9, 2011 and has been included in this analysis as applicable.

**Administrative Law Court Remand.** On December 9, 2009, an Order from Judge Carolyn C. Matthews of the Administrative Law Court remanded the “Fort Mill Hospital” case back to the South Carolina Department of Health and Environmental Control (“Department”) so that the Certificate of Need (“CON”) applications for the Fort Mill Medical Center (“FMMC”/ Piedmont Medical Center “Piedmont”/ Tenet/Amisub), Presbyterian Hospital – York (“Presbyterian”/ “PH-Y”/ Novant) and Carolinas Medical Center – Fort Mill (“Carolinas”) may all be reviewed equally under the South Carolina Health Plan (“Plan”) as competing applicants, and for the Department to determine which applicant most fully complies with the purposes of the Certificate of Need Act and the Project Review Criteria as set forth in the statute and regulations. The Order stated that “because the CON Act defines the parameters of the Department’s authority and contemplates that applicants can freely apply and be approvable to compete for a new hospital to meet the public need and other purposes of the CON Act and the CON Regs (R.61-15 “Certification of Need for Health Facilities and Services”), I find the Department committed an error of law and exceeded its statutory authority in interpreting and applying the Plan.” In summary, Judge Matthews concluded that any of the competing applicants could have been approved for a Certificate of Need to build an acute care hospital in Fort Mill.

**Compliance with State (South Carolina) Health Plan.** The December 9, 2009 Order from Judge Carolyn C. Matthews states that “the Department’s decisions must be made based upon the fact that each of the parties is in equal compliance with 24A S.C. Code Reg. 61-15 § 802.1,” which states “Need: The proposal shall not be approved unless it is in compliance with the State Health Plan.” It is noted that the Project Review Criterion ranked as first, as referenced in the March 27, 2006 letter from Mary Fechtel with the Department’s Division of Planning and Certificate of Need, was Compliance with State Health Plan – 1.

**Project Review Criteria.** Judge Matthews’s Order provided the following instructions to the Department: “to determine ‘which of the applicants, if any, most fully complies with the requirements, goals, and purposes of this article and the State Health Plan, Project Review Criteria, and the regulations adopted by the department’ as required by S.C. Code Ann. § 44-7-210(C)” (emphasis hers); and “the Department’s decisions must be accompanied by written findings as to each applicant’s compliance with the relevant Project Review Criteria and which party best meets each project review criterion and the basis thereof” (emphasis ours).

Note that the purpose of “this article,” Article 3. State Certification of Need and Health Facility Licensure Act, and the CON program as a whole is “to promote cost containment, prevent unnecessary duplication of health care facilities and services, guide the establishment of health facilities and services which will best serve public needs, and ensure that high quality services are provided in health facilities in this State.”



## **Background Information**

**Population Growth.** Substantial population growth has occurred in York County. According to U.S. Census 2000 and Census 2010 data, York County's population grew by 61,459 people during that period for an increase of 37.3 percent, which is second in S.C. only to Dorchester County. By comparison, the rate of growth for S.C. was 15.3%. The Fort Mill area (Northern York County) is also projected to grow more rapidly than the Rock Hill area and Western York County. The projected growth for the entire population between 2010 and 2015 is predicted to be 16.1% for Northern York County as compared with 14.2% for York County as a whole and 5.9% for South Carolina. The projected growth is particularly dramatic for the age 65 and over population. Between 2010 and 2015, the growth for this age group is predicted to be 45% for Northern York County as compared with 36.9% for York County and 20.7% for South Carolina.

While the most rapid population growth is in Northern York County, the population of Greater Rock Hill is projected to continue to increase as well. While the projected percent increase for Northern York County was greater than that for Greater Rock Hill, the total projected population increase for Greater Rock Hill was 87,266 residents as compared with 25,845 for Northern York County from 2010 to 2017.

**Significant Outmigration for Services.** In 2009, over 40% of all hospital discharges for York County residents were from hospitals outside of York County. Of the 8339 residents who left South Carolina for services, 8054 (97 percent) went to one of the 14 Charlotte/Gaston area hospitals. An analysis of the DRG information shows that the vast majority of these patients were general acute care patients.

## **Written Findings**

Each Project Review Criterion as described in R. 61-15 "Section 802. Criteria for Project Review Project Review Criteria" has been ranked in accordance with the March 27, 2006 letter from Mary Fechtel, with the Department's Division of Planning and Certificate of Need, which stated: "These criteria are ranked according to their relative importance with the most important being listed first. All other relevant criteria will be given equal importance."

The Department has determined that the application for Carolinas best meets the following Project Review Criteria and therefore should be awarded the Certificate of Need: Community Need Documentation - 2e (Current or projected utilization justified); Distribution - 22 (Identify existing distribution and effect upon balance to target population); 6b (Projected Utilization/Projected Expenses); Net Income - 9 (improvement over time); Financial Feasibility - 15 (Immediate and long-term); Cost Containment - 16a (Feasible sources of funding); Record of the Applicant - 13b (Ability to obtain financing); and Adverse Effects on Other Facilities - 23a (Impact on existing facilities vs. increased accessibility).

**Rank 2 - Project Review Criterion: Community Need Documentation - 2a (Target population), 2b (Population projections), 2c (Service to meet need), 2d (Reduction, elimination or relocation of services), 2e (Current or projected utilization justified)**

All applicants equally met 2a, 2b, and 2c. All applicants clearly identified their target population as the residents of York County. All applicants used population projections that were reasonable

and consistent with those of the S.C. Budget and Control Board Office of Research and Statistics (SCORS). The sources for ZIP-Code specific data were Claritas, Inc. and Thomson Reuters. All applicants proposed to offer services consistent with those of a community hospital and not a comprehensive range of services as would a tertiary hospital.

Piedmont Medical Center provided current utilization data and projected utilization data for both PMC and FMMC. The other two applicants provided projected utilization data. All three applicants provided utilization data for Medical/Surgical and Obstetrics service lines.

Item 2d only applied to Piedmont, and states “In the case of a reduction, relocation, or elimination of a facility or service, the applicant should address the need that the population presently has for the service, the extent to which that need will be met by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination, or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, the elderly, handicapped persons, and other underserved groups, to obtain needed health care.” The Department was concerned with this criterion being adequately demonstrated. The FMMC project involves a proposed relocation via the transfer of 36 existing beds from Piedmont Medical Center and the addition of 64 beds. Areas identified in the proposed Primary and Secondary Service areas are presently served by Piedmont Medical Center, specifically the ZIP Codes 29730 and 29732 that are considered to be Rock Hill, in which Piedmont Medical Center currently has 69.3% market share and 64.6% market share of the total discharges for these areas. The historical utilization for Piedmont Medical Center has declined from 75.1% in 2003 to 57.1% in 2009. Yet, the projected Inpatient Medical/Surgical and ICU Market Share is projected to a combined (Fort Mill Medical Center and Piedmont Medical Center) Market Share of 65.7% in 2015, 70.4% in 2016 and 72.2% in 2017, with the Market Share for FMMC being 19.4%, 22.8% and 26.1% respectively. The Department is concerned that the high level of projected market share is not reasonable. In 2009, the proposed five-ZIP Code primary service area generated 10,125 medical/surgical and ICU inpatient discharges, excluding normal newborns, cardiac catheterization, open heart surgery and psychiatry. Of these, 4310 sought care at North Carolina facilities. The Department is concerned with the redirection of existing patients from Piedmont to FMMC when the 2010 Patient Days of Care at Piedmont was 56,723 days (155.4 beds) with 249 acute care beds set up and staffed out of 268 licensed acute care beds.

Carolinas best met item 2e, which states “Current and/or projected utilization should be sufficient to justify the expansion or implementation of the proposed service.” Carolinas’ projections are based on a high level of current market share, and Carolinas proposes to serve only its existing base of patients at CMC-Fort Mill. Carolinas captured 56.8% of the market share for Northern York County in 2010, as compared with 44.3% in 2005. The total inpatient discharges from Carolinas’ Charlotte hospitals by York County citizens are up 69% since 2005 (3,749 discharge vs. 6,354 discharges in 2010). The need for the project is based on the level of service area residents that are currently choosing Carolinas for their care. Carolinas projects that 75% of its 2009 market share for Northern York County, 80% of its 2009 market share for Rock Hill and 50% of its 2009 market share for Western York County will shift to the proposed CMC-Fort Mill. These projections appear reasonable.

Presbyterian’s projections meet the need of the target population, but in order to meet its projections, it has to capture a high level of market share that is held by other providers, even in light of updated projections which reduced the total number of discharges by approximately 9% as

compared with the October 2010 submission. The information, dated August 9, 2011, was submitted by Presbyterian in response to statements by other applicants indicating a projected “unrealistic market share capture.” However, Presbyterian did not provide detailed outpatient and ancillary projections with the information dated August 9, 2011. Presbyterian currently captures 18% market share in the Service Area, but in October 2010 projected that market share by census tract for medical/surgical services would range from 20-25% for Years 1-3 and from 20-50% for obstetric services for Years 1-3. Based upon review of historical and current data, the Department feels that even with recently updated information, market share projections could be difficult to achieve. For example, in the October 2010 submission, Presbyterian projects to provide 62.5% more MRIs in 2015 than Carolinas and 294% more than Fort Mill Medical Center. This projected number of scans is significantly higher than the number performed in 2010 by several existing S.C. hospitals (for example, Conway Medical Center, Aiken Regional Medical Center, Mary Black Memorial) with more licensed beds than the proposed applicant. Presbyterian projects 54% more surgeries than Carolinas for 2015 in a comparably sized hospital. Updated projections for medical/surgical and obstetric discharges show a decrease in discharges, but the market share did not change from the previous information. If Presbyterian fails to meet updated projections, this would have a substantial negative financial impact upon the project.

The Presbyterian Hospital-York service area is defined as a 7-mile radius around the proposed site at the quadrant north of the intersection of I-77 and Sutton Road in Fort Mill, South Carolina. The service area radius expands out and takes into account the next nearest hospitals in various directions, and major transportation routes. PH-Y did not use a set of ZIP codes to define the service area, but used the smaller census tract level. The proposed PH-Y service area consists of 23 census tracts. These census tracts are all located within SC, encompassing parts of Rock Hill and part of the panhandle section of Western Lancaster County. They assumed patients residing in the census tracts in the service area will account for approximately 80 percent of PH-Y’s patients. The other 20 percent of patients may come from other parts of York County and surrounding counties.

In its August 9, 2011 revision, PH-Y analyzed CY 2009 discharge volumes for two South Carolina hospitals and seven North Carolina hospitals where York County residents currently receive hospital care. Discharge data for these hospitals were used to calculate current and projected service levels and market shares. The projected occupancy rates for the 64 bed hospital for total acute care discharges (combined medical/surgical and normal newborn discharges) were 50.1% for FY2015, 58.5% for FY2016 and 67.6% for FY 2017, which translates into an average daily census of 32.1, 37.5 and 43.3, respectively. The market share for medical/surgical services remained the same in the August 9, 2011 document with 27.6% in Year 1 (2015), 31.1% in Year 2 (2016) and 34.6 % in Year 3 (2017). The market share for obstetric services likewise remained the same, with 30.2% in Year 1 (2015), 34.0% in Year 2 (2016) and 37.8 % in Year 3 (2017). These projections seem difficult to achieve even with significant inpatient outmigration.

The projections for Carolinas Medical Center- Fort Mill are based on a high level of current market share, and it is the only applicant that projects no increase in market share as a result of the proposed project. Carolinas proposes to serve only its existing base of patients. It projects to shift a portion of its existing market share of the service area to CMC-FM. The need for the project is based on level of service area patients currently choosing Carolinas for their care. It already serves a significant percentage of York County residents, particularly those residing in Northern York County. Carolinas has almost as much market share for the entire York County

as Piedmont. The primary service area identified consists of six ZIP codes, three for Northern York County (Fort Mill and Tega Cay) and three ZIP codes for the Rock Hill area (two for Rock Hill and Catawba), which will comprise 78.8% of their projected patients in Year 3, and a secondary service area of six (6) ZIP Codes in Western York County, which will comprise 12.1% of their projected patients.

Market share data from Thomson Reuters and SC ORS are used to demonstrate current market share of the service area and assumed a shift of existing Carolinas market share to new hospital. CMC-FM projects utilization on a ZIP code basis. The existing market share has continued to grow since the original filing. The applicant proposes to shift 75% of its 2009 market share held by Carolinas' Mecklenburg facilities for Northern York County, shift 80% of its 2009 market share held by Carolinas' Mecklenburg facilities for Rock Hill, and shift 50% of its 2009 market share held by Carolinas' Mecklenburg facilities for Western York County. The projections were submitted for obstetrical market share. It is assumed inpatient discharges at CMC-Fort Mill will be derived from York County patients currently seeking care at Carolinas' hospitals in North Carolina. CMC-Fort Mill is projected to reach 63.9% occupancy in Year 1 (2015), 65.7% occupancy in Year 2 (2016), and 67.5% occupancy in Year 3 (2017), with the following projected occupancies for obstetrical beds in Years 1-3, respectively: 79.5%, 81.0%, and 82.0%.

Fort Mill Medical Center identified five (5) ZIP Codes in the Primary Service Area, three (3) identified by the ZIP Name "Fort Mill" with a total projected population in 2015 of 61,502 residents, and two (2) ZIP Code Areas identified by "Rock Hill" with a total projected population in 2015 of 133,934 residents. The Secondary Service area was identified by seven (7) other ZIP Codes for a total projected population in 2015 of 80,260 residents, for a combined Primary and Secondary Service Area population total of 275,696 residents. Some of FMMC's residents are predicted to be from Rock Hill, but it does not seem reasonable to assume that a patient choosing to use Piedmont's services will drive past the main hospital to receive care at FMMC.

The Primary Service area for the proposed Fort Mill Medical Center includes two Rock Hill area ZIP codes, identified by 29732, which includes Piedmont Medical Center, and 29730, some of which is located south of Piedmont Medical Center. The remaining three Primary Service Area ZIP codes are in the Fort Mill area. Piedmont projects to capture medical and surgical discharges from the 29732 Rock Hill ZIP codes as follows: 18.9% in Year 1 (2015), 18.9% in Year 2 (2016), and 19.2% in Year 3 (2017); for both Rock Hill ZIP codes combined (29730 and 29732): 43.3%, 43.2%, and 43.8%, respectively. The remaining projected discharges are from the Fort Mill area. Piedmont provided no rationale for projecting so many discharges at Fort Mill from areas immediately in the vicinity of Piedmont Medical Center.

Piedmont projects to capture 32.3% of the medical and surgical discharges from the 29732 Rock Hill ZIP codes in each of the first three years of operation; for both Rock Hill ZIP codes combined (29730 and 29732): 68.4%, 68.0%, and 68.2%, respectively. The applicant provided no rationale for projecting so many discharges at FMMC from areas immediately in the vicinity of Piedmont Medical Center. The remaining projected discharges are from the Fort Mill area.

There are currently beds available at Piedmont to serve the Rock Hill population, which is projected to remain the largest population base in York County. Relocation/replacement of 36 beds in Northern York County does not appear to equitably distribute beds within the County and reduces accessibility to Greater Rock Hill and Western York County. Piedmont has not

documented the need for a capital expenditure of over \$40 million more than the other applicants.

Information provided by Piedmont indicates a substantial reduction in utilization, from an average daily census of 201.2 for 75.1% occupancy in 2003 to an average daily census of 153 in 2009 with 57.1% occupancy. They are licensed for 268 acute care beds (excluding 20 psychiatric beds) and the most recent Joint Annual Report (JAR) indicated they have 249 acute care beds set up and staffed (excluding 20 psychiatric beds). The utilization slightly improved to an average daily census of 155.4 in 2010, for an occupancy of 58%. Based on this information, there are currently 94 unused beds at Piedmont on an average daily basis.

The JAR also showed a dramatic reduction in outpatient endoscopies, from 5813 in 2009, to 2316 in 2010, a decrease of 60.2%. All inpatient operations decreased from 4271 in 2008 to 3844 in 2010, a decrease of 10.0%; total operations (inpatient and outpatient) decreased from 8,434 in 2008 to 7,537 in 2010, a decrease of 10.6%. There has also been a decline in tertiary services at Piedmont. Total heart catheterizations (diagnostic and therapeutic) have decreased from 2459 in 2008 to 2090 in 2010, a decrease of 15%. Open heart surgeries have declined from 164 in 2008 to 127 in 2010, a decrease of 22.6%.

**Rank 2 – Project Review Criterion: 3. Distribution (Accessibility) – 3a (Duplication and modernization), 3b (located to serve medically underserved areas), 3c (Location allows for timely delivery of necessary support services at a reasonable cost), 3d (No restriction on admissions), 3e (Documentation of means by which persons will access the services), 3f (Extent of access to medically underserved populations), 3g (Provisions for access to the appropriate service, regardless of ability to pay)**

Item 3a only applied to Piedmont, which states “Duplication and modernization of services must be justified. Unnecessary duplication of services and unnecessary modernization of services will not be approved.” Piedmont has not adequately justified the duplication of services by the transfer of 36 existing beds in a project with a total project cost of either \$119,808,964, or \$146,522,042 which includes financing cost during construction.

All applicants met items 3b, 3c, 3d and 3e. Items 3f and 3g are equally met by Presbyterian and Carolinas. Presbyterian has the most generous charity care policy. Novant’s charity care policy provides that any uninsured family of four (4) with an annual household income less than 300 percent of the Federal Poverty level (\$67,050 for 2011) without an asset test access to medical care at Presbyterian hospitals and employed physician practices for free. PH-Y estimates it will provide charity (indigent) care in the amount of 6.5 % of projected gross charges. In its October 2010 submission, this equated to \$11,543,636 in Year 1 (2015), \$13,893,633 in Year 2 and \$16,525,574 in Year 3. However, revised figures were not submitted even though a reduction in inpatient discharges and outpatient cases was indicated by their August 9, 2011 letter. By comparison, Carolinas proposed 6.3% of gross charges for totals of \$10,514,000, \$11,598,000 and \$12,770,000, for Years 1-3, respectively. Piedmont proposed significantly less charity care, 3.0% of gross charges, which equates to \$4,525,618, \$5,699,710 and \$7,012,201 for Years 1-3, respectively, for a 100 bed hospital vs. the other applicants’ 64 bed proposals.

The Department also examined Medicaid Inpatient Discharges. Carolinas served the largest number of Medicaid patients traveling from S.C to N.C. for care in all years between 2005 and

2009. Carolinas indicated there were 1,387 SC Medicaid inpatient discharges from Charlotte hospitals in 2010 vs. 183 Medicaid inpatient discharges for Presbyterian. In addition, Carolinas indicated they had 4,190 SC Medicaid ED discharges from Charlotte hospitals in 2010 vs. 83 Medicaid ED discharges for Presbyterian. According to the 2010 JAR, Piedmont had 2,744 Medicaid discharges.

**Rank 2 - Project Review Criterion: 22 - Distribution (Identify existing distribution and effect upon balance to target population)**

Even though patient choices exist for all three applicants within a reasonable travel distances and times within approximately thirty (30) minutes, Carolinas best met this criterion because it is the only applicant that proposes to successfully shift its current market share. The Department is concerned with the cost-effectiveness of Piedmont's proposal and the balance of the distribution to the target population. Presbyterian's application would require a substantial change to the existing market shares of both Piedmont and Carolinas to be successful.

In a response dated December 3, 2010 regarding plans to recapture market share, Piedmont states that "without a hospital location in the northern portion of the county, Piedmont will continue to lose patients to providers in the north." The Department feels this could result in the recapture of some patients who currently travel out of state for care, but not to the extent proposed by Piedmont. It is not clear that the number of beds proposed to be constructed are fully justified given the target population includes patients who would have to drive past Piedmont to reach FMMC.

**Rank 3 - Project Review Criteria: Projected Revenues, 6a (Proposed/comparable charges), 6b (Projected Utilization/Projected Expenses), 7 (Consistent with similar facilities)**

**Rank 3 - Project Review Criteria: Net Income, 9 (improvement over time) /Financial Feasibility, 15 (Immediate and long-term)**

All projects show an improvement in net income over the first three years. All applicants provided projections of immediate and long-term financial feasibility and comparable projected inpatient charges per patient (6a, 7). However, Carolinas best meets these Criteria 6b, 9 and 15 with its more conservative financial projections based on current market share. Their projected revenue, expenses and net income are based on reasonable and current market share assumptions. Both Carolinas and Presbyterian have comparable Total Project Costs and FTEs per adjusted occupied bed. On August 9, 2011, Presbyterian revised their projected revenue, but did not submit the pro forma in its entirety. However, the excess of revenue over expenses have been reduced from \$1,998,254 to \$585,036 for Year 2 and from \$4,985,226 to \$2,544,000 for Year 3. The Department remains concerned that Presbyterian's high level of projected market share cannot be achieved without taking market share from existing providers resulting in adverse impact. Piedmont least meets this criteria since it is the only application in which a profit is not shown until Year 3. Piedmont also has the highest cost per bed of all of the applicants, particularly if the Total Project Cost of \$146,522,042 is used.

**Rank 3 – Project Review Criteria: Cost Containment – 16a (Feasible sources of funding), 16b (Lease alternatives), 16c (Impact upon costs to provide services and charges)**

The Department has received numerous projections for expenses per adjusted discharge, making it difficult to assess impact per adjusted discharge. However, it appears that Piedmont has the highest cost and revenue per adjusted discharge. Carolinas best meets **Criteria 16a** as it proposed the most definitive method of financing, which is to finance the capital cost for the project from accumulated cash reserves. Presbyterian proposes to fund the capital costs out of Accumulated Reserves of Novant Health, Inc. but reserves the right to seek tax exempt bond finding for all or part of the project. Presbyterian projects approximately \$3 million per year in interest expense for Years 1-3. Piedmont proposed the least definitive method of financing. Note that in its response dated December 3, 2010, FMMC removed the capitalized interest costs of \$ 8,962,851 for financing cost during construction, but interest expense remained a line item of the Financial Projections for the Years 1-5 provided. The interest expenses ranged from \$10,391,282 in Year 1 to \$8,561,839 in Year 5. The applicant stated that Piedmont intends to finance its project “through the most appropriate and cost-effective capital structure available at the time: utilizing existing cash reserves, existing lines of credit, or the issuance of debt and/or equity.” The FMMC application states that “since the other applicants did not include capitalized interest expense” they would “provide project costs that exclude this line item.”

All applicants propose to build and not lease their hospital buildings. All applicants addressed impact upon costs to provide services and charges.

**Rank 3 - Project Review Criterion: Efficiency – 17 (Avoid duplication, foster economies of scale)**

Carolinas and Presbyterian both meet Criterion 17, Efficiency. They both are similar with regards to Total Project Cost, cost per bed, and FTEs per adjusted occupied bed. Since Carolinas already has a significant market share, its project would shift its existing market share into a South Carolina facility. Presbyterian focused on the use of the “prototypical hospital design” to reduce construction costs and ongoing costs to operate and maintain the facility. Presbyterian also had the lowest equipment costs due to “enhanced purchasing power for imaging equipment.”

Piedmont least meets Criterion 17. Piedmont claims the construction of 100-bed facility will be most cost effective, efficient and achieve economies of scale. However, their project is the most costly and they provide no information to support the “economies of scale” statement. Piedmont also had the greatest land and equipment costs. A unique feature of PMC, and subsequently FMMC, is a contract which Tenet maintains with York County. It sets forth certain pricing restrictions relative to a “peer group” of similar hospitals, which include hospitals in South Carolina and North Carolina.

**Rank 4- Project Review Criteria: Record of the Applicant – 13a (Successful operations and management experience), 13b (Ability to obtain financing), 13d (Record of compliance)**

All applicants have adequately demonstrated successful operations and management experience (13a) and have addressed capital financing (13b). All applicants adequately addressed compliance with state regulatory programs (13d).

Regarding Criterion 13b, Ability to obtain financing, see 16a, feasible sources of funding. Note that Carolinas best met Criterion 16a and therefore best meets Criterion 13b.

**Rank 4- Project Review Criteria: Acceptability – 4a (Support of affected persons), 4b (Consideration of opposition), 4c (Possible transfer agreements)**

All applicants meet the criterion for acceptability. All applicants submitted substantial letters of support, primarily from the community. The current reported totals are 10,004 letters for Presbyterian, 5753 for Carolinas and more than 5400 for Piedmont. The Department directly received thirty-four (34) letters of opposition to Piedmont from the community. This was significant in that most were lengthy and detailed. In contrast, one letter opposing both Carolinas and Presbyterian was received directly by the Department. However, Piedmont also provided forty-five (45) letters of support from independent physicians. All applicants submitted significant letters of support on postcards and duplicated form letters. Support was also submitted via e-mail.

**Rank 4- Project Review Criteria: Adverse Effects on Other Facilities – 23a (Impact on existing facilities vs. increased accessibility), 23b (Impact upon existing staffing and staffing costs)**

Carolinas best meets this Project Review Criterion 23a as it currently has a high level of market share in Northern York County and already serves a significant percentage of York County residents. Carolinas has almost as much market share of York County as a whole as Piedmont. As a result, Carolinas can meet its projected utilization without adversely impacting existing providers and with the least impact upon Piedmont Medical Center. All applicants meet Criterion 23b.

In order to meet its projected utilization, Presbyterian would have to capture a significant level of market share and utilization from PMC, which would result in an adverse impact. Presbyterian proposed to capture 2174 inpatient discharges from Piedmont, resulting in a 14.2% reduction. This volume reduction will have a material impact upon Piedmont. The Department also had difficulty with reconciling Presbyterian's utilization methodology.

Piedmont projects around 18% of its admissions will be redirected from Piedmont to FMMC with the remainder of its patients coming from N.C. providers. The Department is concerned about Piedmont's ability to capture/recapture market share. Additionally, the projections proposed for FMMC will not negatively impact any of the other applicants, but Piedmont Medical Center itself could be negatively impacted by the approval of FMMC due to shifting of patients and current market share.

Piedmont projects that it will lose over 3500 cases and some \$13.8 million in net revenue by the third year of operation if a Fort Mill facility owned by either Carolinas or Presbyterian is built. The Department notes that Piedmont's 2011 budget projects a pre-tax income of \$19,122,474, which is approximately \$12 million after taxes. Even with a N.C. provider in Fort Mill, Piedmont



projected Net Operating Revenue of \$256,083,937 for the year 2015 and \$260,188,895 for the year 2020. However, during this period, the Net Income for Piedmont was projected to decrease from \$4,881,595 to a negative value of \$18,613 if there is a N.C. provider in Fort Mill.

Piedmont claims that it will experience the loss of patients and will have no choice but to reduce costs in the form of a reduction or elimination of jobs and services to offset the loss in revenue due to the decline in utilization of hospital services. Over time, Piedmont indicates its ability to continue to invest in new technology, upgrade its facilities and establish new services will be limited and this would impede Piedmont's ability to recruit or retain physicians.

Piedmont states there would be increased outmigration for tertiary and other specialty services to the Charlotte-area hospitals which would reduce the volume of Piedmont's open heart surgery program. Piedmont states the substantial losses in patient volume and revenue would jeopardize the following programs: stroke program; in-house neonatologists; infusion center; wound care center and hyperbaric chamber. Piedmont states it would have to reduce the number of operating rooms and ED bays it staffs and would lay off a corresponding number of personnel as well. Piedmont Medical Center's historical utilization has decreased from 75.1% in 2003 to 57.1% in 2009. The Department is unaware of a loss of services due to this decrease. The Department does note, however, that Piedmont serves a valuable community role as a Level III Trauma Center. From 2005 to the present, the SC Trauma Registry indicated Piedmont as serving 1948 trauma patients. Of these patients, 1108 or 56.9% were from Rock Hill ZIP codes.